RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**
P.O. Box 1759, La Jolla, California 92038
36 Letters per year — $150 Annually
Registered with the Securities and Exchange Commission

September 21, 1977 **LETTER 709**

Sept. 9, DJIA 957.07; PTI 842; A-D Ratio –19.73
Sept. 16, DJIA 956.81; PTI 838; A-D Ratio –19.73

THE MARKET: Maybe I've been through it too many times before, or maybe I'm just getting jaded, or maybe the California sun is beginning to par-boil my brain. But I don't think we're seeing the end of the world, and I don't think that "this time" the market is going down, down, down—never to return again!

I try to write these reports two ways. The first way is like living history. I write about debt and stupid politicians and economic problems, I try to show how all this affects our lives and how it affects the market. That's what I call the fundamental tie-in, and it's interesting (at least I try to make it interesting).

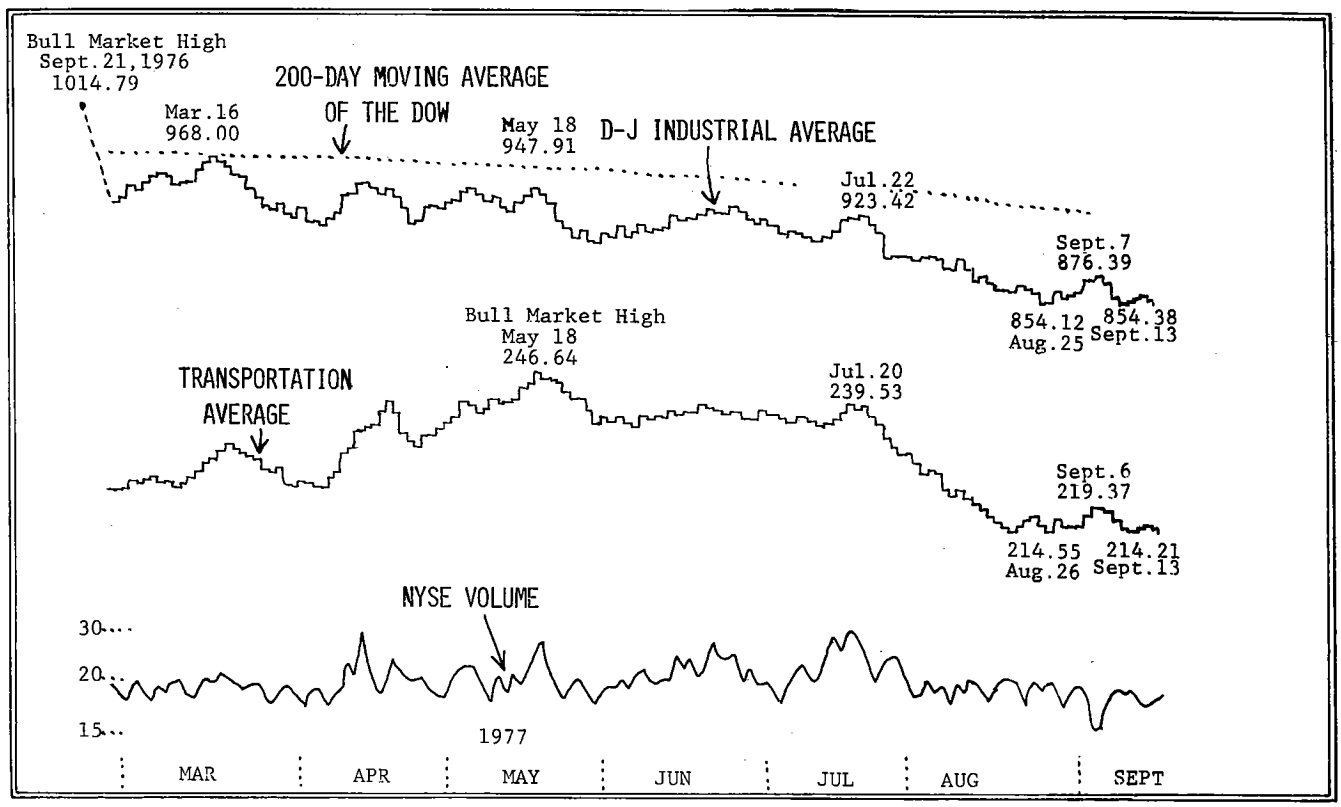
Then there's the other side of the coin, the technical approach. Every technician knows that stocks can do only four things: (1) They can go up on rising volume, (2) they can go up on contracting volume, (3) they can go down on rising volume, (4) they can go down on declining volume. That's all stocks can do! Our job (as technicians) is to study HOW stocks are going up or down, and to try to make sense out of the whole process. If we're clever enough, we can sometimes figure out what stocks are going to do in the future, based on what they have done in the past and what they are doing now.

In the 93 years since the stock market Averages were first invented, every conceivable kind of economic, social and political event has been seen in this nation. We've had wars, we've had peace, we've had good times, we've had horrible times, we've had great Presidents, we've had ding-bats, we've had honest leaders, we've had thieves. During all those 93 years stocks went up and they went down. That's all, those stocks just went up until the best was discounted in the price structure. Then they went down until the worst was discounted. Strangely, stocks never rose to the skies, and stocks never went down to zero.

Now here's a secret that I'm willing to disclose to my subscribers. Stocks (regardless of events in the period ahead) are likely to do the same thing they have done during the last 93 years. They're going to go up, and they're going to go down. Our job isn't to analyze every political or economic event that makes the columns of the *New York Times* or the *Wall Street Journal*. Our job is to try to figure out when the market has "had it" on the upside, or when the market is "exhausted" on the downside. Because sure as the devil, when the market is tired of going up (regardless of how good the news is) it's going to head down. And when the market is exhausted from going down (and it may be the near-end of the world), it's going to head up!

Question: From a fundamental basis, what do you think is still bothering this market? What is the worst of the problems that you see ahead?

Answer: Right now the Dow is selling below its book value, which is about 850 at present. Make no mistake about it, a below-book value Dow is a "scared Dow," it's a Dow that's discounting some very unpleasant situations. The Dow sold below book value



in **1932**, as it discounted the disaster of the Great Depression. The Dow sold below book value again in **1942**, during the depths of World War II (at which time it looked as though the Allies could lose the war). The Dow sold below book value next in **1974**, at the lows of the worst bear market since the 1930's.

And now, again, we find the Dow below book value. What could it be discounting? My own feeling is that the market is discounting the effects of the huge oil-related US deficits. It is also discounting troubles on the part of the "less developed countries" as they dump their commodities on the world market in an effort to raise money. And the Dow is discounting the steadily rising forces of *deflation* plus a probable sharp corporate *profits-decline* to begin late this year and carry into 1978.

Of course I could be wrong, I could be looking at the wrong data, but make no mistake about it, the Dow does not sell below book value for nothing! I believe that in returning to the under-book value zone (last seen in 1974), the Dow is telling us that many of the serious problems which were discounted by the market at the 1974 lows–are still with us. These problems are still basically unsolved.

Question: Those are very unpleasant fundamentals, Russell. Do you think they can be solved?

Answer: I do, yes. Or at least I think the market will discount the worst, and then move up. My feeling is that the Arabs are now *capitalists*. They have huge fortunes to **protect**. The Arabs have a vested interest in capitalism, and a world depression would hardly help them. Therefore, I think we will probably see Arab oil prices *come down* as demand ebbs and as the frightening possibilities or a world economic recession dawns on the Arabs (who, by the way, have absolutely top Western economic advisors at this stage of the game). With a decline in the price of oil, I think the world situation could be dramatically stabilized. That stabilization could have an extremely bullish effect on the US market (and a very bearish effect on the British market, which has been bailed out by the North Sea oil finds).

And another thing: even though the Dow is down and selling on a book value basis, we shouldn't forget that historically, when the Dow sells at book value it is in the "bargain zone." In other words, it takes a lot of depressing factors to drive the Dow down to book value, but once there, investors know that stocks are entering a very favorable buying area (obviously, this is **not an exact timing device**, nor does it mean that the Dow can't drop even lower into the book value area).

Question: Russell, what do you think of the technical picture?

Answer: The technical picture is a paradox, a "toughie." From the standpoint of the price movement, we have a few potentially positive developments. The first is that although the *NYSE Composite Index* broke below the critical 52.50 level on an intra-day basis, it has refused (so far) to **close** at or below 52.50. For instance, on September 12, after dipping below 52.50, the Composite closed at 52.54. The next day the same thing happened and the Composite closed at 52.56. On September 14 the Composite closed higher at 52.79. What was I hoping for? I wanted the NYSE Index to close below 52.50, in the hopes that this would bring in enough selling pressure to move my market indicators down to over-sold. But as is so often the case, the market hasn't arranged itself for my benefit.

The continuing refusal on the part of the NYSE Composite to close at 52.50 or lower is a near-term plus for the market. Next, what about the Averages in terms of Dow Theory? Please refer to the page 1 chart. Note that the August lows for the Averages were 854.12 for Industrials, 214.55 for Transports. The Averages rallied into early September, and then declined. On the decline the Transports broke to a September 12 low of 214.21 (which was a new low for the move), but Industrials would not confirm. This non-confirmation could turn out to be significant. The non-confirmation is (if it holds) an element of strength in the price structure. BUT I want to reiterate, all of this came without the appearance of an over-sold condition in the general market. And that's what bothers me.

What could happen next? What I would "like to see" would be a rally, then a new decline to an important over-sold bottom. All this would hopefully occur during late-September and into *October*. That's what I would like to see; that's the kind of action that would make my life easier (easier in that everything would fit together in the "right way"). Will it actually happen that way? I can only hope that it will.

The price structure (referring to the D-J Averages) is now in position to tell us something–and probably soon. If any real strength has built up in this market, it will show itself in one clear way: The D-J Industrial Average will rally above its September 7 peak of **876.39** confirmed by a Transport rally above its own September 6 peak of **219.37**. A failure of one or both Averages to better those levels will mean a testing (and most probably a breaking) of the August lows.

Do I think those two high points will be bettered? I must admit that I am skeptical. I am skeptical because I do not see signs of real strength building under this market–yet. For instance, I note that there were only 700 odd lot shorts on September 13 and only 800 odd lot shorts on the 15th. Those miniscule figures indicate that the odd lot shorter (a very wrong fellow most of the time) is betting that there is no room on the down-side. There are a number of other technical indicators that do **not** indicate "a substantial move" from here, among them the short interest ratio on the NYSE (only 1.31), Marty Zweig's put-call ratio, my over-bought and over-sold indicator, etc.

I want to repeat again that those August lows in the Averages bother me. August has never in this Century been a month for major market bottoms. So the August timing bothers me. Secondly, the market was not fully over-sold at the August lows, nor has it been fully over-sold since. In my 30 years of experience watching markets, I have never seen a major primary advance start from a base which I could not term "over-sold."

Question: Russell, suppose the 876.39 (Industrials) peak and the 219.37 (Transports) peak of early-September are bettered. Would you then buy stocks?

Answer: From what I see now, no. I'm not a trader, and I am only moved to buy when I see the possibility of a major rise. I've learned (the hard way) that the only way I make money in the stock market is by buying at the important over-sold low points. I've learned that this is also the way most of my subscribers make money. Because I am not satisfied with the August lows, my answer to the above question is that I want to continue to "stand aside." Sooner or later (hopefully in October) we'll get the kind of bottom that I have faith in. I haven't seen that kind of low yet in 1977.

Question: What do you make of the new high in the British market?

Answer: The London market usually moves *with* our market, although there is usually a lag at the bottom (London bottoms after the US) and there is generally a lead at the top (London tends to top out before the NYSE).

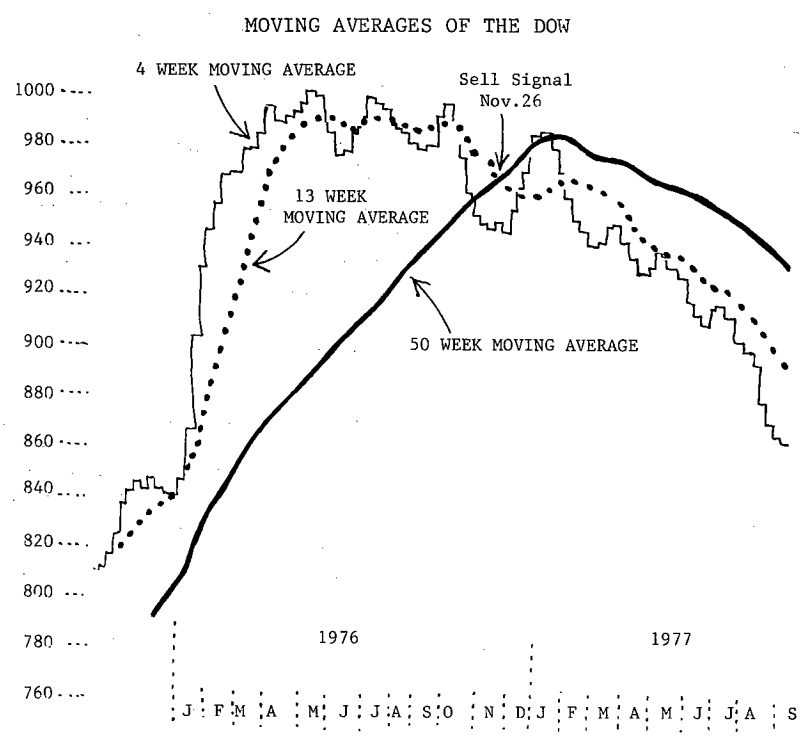
Right now we have a discrepancy that is startling. The London market has just recorded a new all-time high while the US market, by any reckoning, is well off its high. In my opinion, London may be providing us with a vision of "things to come." I believe that the London market is in it's third, speculative phase. The North Sea oil is coming in sooner than expected, receipts from oil are a mighty aid to England, and the British market is off and running.

Actually, British production is still rotten, business in Britain is nothing to shout about, and I doubt that the British Empire is about to burst forth again in all its glory. But people feel better, the depressing atmosphere is lifting, and people in Britain are *tired* of singing the blues. They want to feel better, the oil is pouring in, and the stock market is celebrating.

I think that in time, the same psychology could overtake the US. Ultimately, this Administration may get "it's head screwed on straight," people may get tired of being scared, the fog will lift, great equity values will be recognized, and the stock market will take off. But not quite yet, we still (it seems) have a bit of waiting to do.

Question: Where are we now in terms of your Dow moving averages study?

Answer: The study of the three Dow moving averages (MA's) was last detailed in Letter 704. I am therefore not going into a full explanation again in this report. However, I believe the accompanying chart tells the whole story. The 13-week MA dropped below the 50-week MA on November 26, 1976 thereby giving a major "sell signal." Since the primary trend was up, I decided at the time to give the market every benefit of the bullish doubt, despite the sell signal.



On February 13 the 50-week or long-term MA *turned down*. On Feburary 24 the 13 week MA (following a rise), joined the 50-week MA by turning down. In the Letter that week (Letter 690) I issued a specially printed "Last Minute Supplement." That attached note stated that the market was beginning to look shaky, and that "I would now cut back on equity commitments." Subsequent Letters advocated a move to almost all cash or the equivalent (bills, bonds, etc.).

As of this writing, the three Dow MA's continue to provide a bearish reading. The 4-week MA (now 862) is holding below the 13-week MA (which is now 888), and the 13-week MA is holding well below the 50-week MA (which is now 931). Furthermore, all three MA's are declining. The spread between the 50-week MA and the 13-week MA is a negative 43 points, the widest negative spread since the sell signal was given late in 1976. In the absence of a fully over-sold market condition, this study is telling us to remain on the sidelines.

THAT CHART AGAIN: Since I have been stressing the technical condition of the market of late, I wanted to repeat this chart (see page 4) of my two over-bought and over-sold indicators (updated, of course). As of this writing, the "market trend" indicator is at plus 1000, which is slightly to the over-bought side of the ledger. The other (confirming) indicator is my 8-day total of the daily most-active *differentials*. The 8-day total now stands at plus 25, which is a semi over-bought reading. Since we have been waiting for full over-sold readings, this is not encouraging action.

Remember, the fully over-sold readings are minus 1350 to minus 1400 for the market trend index, and minus 45 to minus 50 for the most-active totals. The last time we saw readings like that (on the part of both indicators) was last October–so we'll wait.

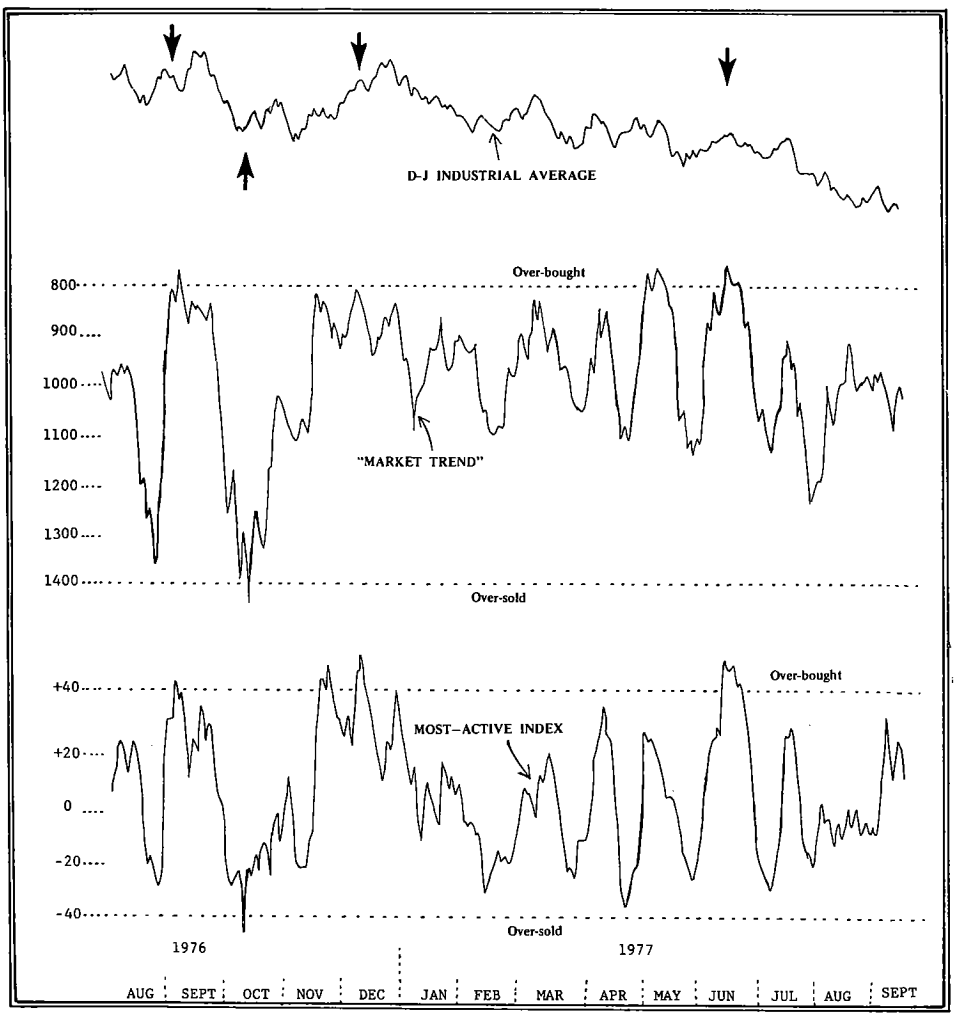
NOTES & COMMENTS: Last week *Time* Magazine came out with a cover story on the sky-rocketing housing picture. That was two weeks after Letter 707 (which dealt with the torrid speculation in real estate). There's an old adage that says that "When you've made the cover of *Time*, you're on your way down." I couldn't help musing about that one as I looked at that *Time* piece.

* *

I don't often recommend publications, but Yale Hirsch's new "Mutual Fund Almanac" (just updated) is a mountain of information covering 600 funds. Price is $15, and well worth it. Write to Hirsch Org., Six Deer Trail, Old Tappan, NJ 07675. (Imagine a guy so ecology-minded that he lives on a deer trail!).

* *

My peripatetic buddy, Dr. Harry Schultz (writing from Scotland, I believe), has raised his cudgel against Carter's proposed removal of special tax treatment for capital gains. Schultz believes this could be the "coup de grace" for free enterprise. "Capitalism," states Harry, "and all it represents in terms of liberty, free will, prosperity-creating and stability, is under attack (with the goal of extermination in 5-7 years) by Jimmy Carter, acting as front man for the Tri-Lateral Commission, who, in turn fronts for the master puppeteers."



Closed Doors" TV series, the Carter-Lance mess, the Korea-gate scandals. "Aren't they bad," we say, "Aren't those politicans thieving scoundrels!" Sure they are, but they gave us what we wanted. And what does that makes us?

* *

I noted in an earlier section that the D-J Industrial Average was now at an approximate book value of $850. But this is based on the old or standard accounting system. If we take "replacement costs" or the new accounting system into consideration, the book value of the Dow would be considerably higher. Based on a replacement value accounting, *Value Line* investment service estimates that the tangible book value of the Dow is around $1360.

On this basis, the Dow is now a great bargain. But don't forget, companies, regardless of what bargains they are on a book value basis, have to earn money and they have to pay dividends. The Dow's earnings return (as a function of replacement cost book value) has been steadily sliding since 1950. This situation is probably one of the main factors behind the Dow's inability (after 11 years) to better the 1000 zone.

Value Line states that the after-tax earnings of corporations as a percentage of replacement cost must rise. They see only two solutions, (1) real tax reform, or (2) higher selling prices. My comment: let's hope its the first!

* *

Harry, continues, "Meanwhile, the entire investment psyche is changing, subsconsciously." He notes that the price of a NYSE seat is less than the price of a NYC tax permit, probably a sign of the times. And he also notes that "People are investing and are interested in alternate residences, alternate citizenships, rare coins, rare stamps, select diamonds, portable antiques, commodities."

What do I think? Frankly, I have always been skeptical of the "conspiratorial" thesis, the theme that "they" are out to take our homes and our country away from us. No, my own belief is that we (the American Citizen) have given the whole thing away, via our votes and via our greed. **We have opted for tomorrow today**, we have demanded that Government give us jobs and happiness, and we have elected politicians who have given us what we wanted. And how did the politicians manage to give us all "tomorrow's goodies" today? Simple, they did it with debt.

So in my opinion, our stupidity, our greed, our passivity, our hedonism, has produced what could be the beginning of the end for the free enterprise system. The fruit of it all, our instant happiness, is the biggest debt structure in world history. And that mountain of debt is sucking the life out of the economy.

No, I don't think it's a giant conspiracy. We're the ones, we picked the stupid politicians. We told them what we wanted, WE gave it all away. And now we sit there fascinated with the latest account of the greedy politicans: The "Washington Behind

The following is from the latest of Eliot Janeway's always-fascinating reports (this one is dated Sept. 7): "*For months, OPEC's posted prices have been as insupportable around the world as the price increases posted by America's steel mills have been since the outset of their price wars last spring.... OPEC countries, no longer just the busted ones, are now undercutting each other's prices and, nevertheless, admitting their need to raise production, despite the mountainous dimensions of the (oil) glut. In fact, the glut is now so conspicuous, and the popular resistance to the Carter fuel tax inflation is so fierce, that Carter is getting ready to abandon it, while he fights for the Canal Treaty.....The New Business Year: it begins this week with the economy suffering the scariest drop-off since it went bad in September, 1957, and took the stock market with it...*"

THE STRANGE PATH: It's strange and fascinating to think of how, in this life, one thing so often leads to the next–and how totally unexpected the next thing can be. I have learned that it pays to *follow your interests.* I have found that the people who are very knowledgeable (obsessed is a better description) in a certain field, are almost always interesting. And I don't care whether that obsession is with pins, real estate, Elizabethan literature or American Art. The point is that an overwhelming interest in a particular field is like a pebble falling in a pond–the ripples spread out and out.

I am reminded of the Biblical story of Joseph (he of the coat of many colors). Joseph's abiding interest can best be described as wisdom and understanding. Yet Joseph's life was a long series of

hardships, from betrayal by his brothers to slavery in Egypt. At any particular period in Joseph's life, his situation could variously be described as "hard," "disastrous" or just plain "awful." Yet Joseph continued to learn and grow wise.

It was then that the great Pharaoh of Egypt had his historic dream, the dream of the seven fat cows and the seven lean cows. No one in Egypt could interpret that dream. Finally, Joseph was called, and he interpreted the dream successfully. Seven good years were coming, he stated, to be followed by a seven-year famine. Joseph warned Pharaoh that he must prepare. Pharaoh appointed Joseph first in command, and vast quantities of food were stored in Egypt. As a result, Joseph saved not only Egypt but his own people.

The point I am making is that Joseph's intelligence and pursuit of wisdom led him to fulfill his potential. That extraordinary potential resulted in his saving the civilized world. The strange (and seemingly dreadful) path of his life ultimately led to victory and a place in world history.

As I was writing this I could not help thinking of a strange obsession of my own that has resulted in a totally different life for me. I grew up in New York City, the New York of the 1930's and early 1940's. NYC was a pretty good place to live in those days, but I always longed for something else, and it was the world of nature and the outdoor life. One day my father brought me a little Cactus plant. Somehow, that plant seemed to be the embodiment of everything wild and wondrous that I had always dreamed about. I watched the plant grow, and as it added branches I grew more and more fascinated with it.

I started going to the New York Botanical Gardens, which was a truly great institution in those days (alas today it is more of a public picnic area). I spent long hours talking with the various botanists and studying the Garden's fabulous Cactus collection. I also began collecting Cacti on my own–and here fate took a hand. In those days there were four Cactus nurseries in San Diego. I started corresponding with the nursery owners, and I quickly learned that San Diego was about the finest growing area in the nation. I started to dream about San Diego, the land of perpetual spring and summer.

Finally, in 1939 I took a Youth Hostel bicycle trip across the country, and it was then that I saw my heart's desire, the fabled hills and deserts of California. The Great Depression of the '30's was still on, and I witnessed many pathetic sights as well. I saw signs reading, "Pick all the grapefruit you want for 50 cents." I stared dumbfounded at great fields of rotting fruit, fruit that could not be sold at a profit. I saw homeless men stopped by the police in LA, stopped and arrested for vagrancy (and if they weren't California residents they were told to get out of the State). But I never forgot those other scenes, the beauty of the West, the shimmering Pacific Ocean, the wide highway, the yellow hills, and the groves of oranges and avocados.

So, in 1961, after the War and three years after I started Dow Theory Letters, I packed and moved it all, lock, stock and barrel to San Diego. My childhood fascination with Cacti had pointed me mysteriously towards San Diego. Had it not been for my interest in Cacti, I am sure I would still be in NYC. I have about 1,000 Cacti plants today, and I watch them with the same sense of fascination that I watched my first little Cactus plant almost 40 years ago.

My Conclusion: Follow your own deep interests. Don't let anyone talk you out of them. In fact, I say delve further into them. If it's golf you like, astronomy, dogs, guns, stamps, Hindu philosophy, get into it, find out the how's and why's of it–and see where it takes you. If your interest is real, it's bound to make you a more interesting person.

My theory is that we are here on this earth because God has decided that we are ready for a journey. That journey is from where we are now, today, to where we are supposed to be (or to where God wants us to be). Your deep interests will probably help you on that journey. Mine helped me.

PRESIDENT INITIATES ENERGY DEPARTMENT

WASHINGTON (AP) — President Carter signed an order yesterday setting up the Department of Energy and immediately began naming the officials to help lead it.

The new department, which is headed by James R. Schlesinger, has an annual budget of almost $10.4 billion and will include almost 20,000 employes. It starts operations on Oct. 1.

IDIOCY: This clipping tells us about the newest load on the back of the US citizen, the $10 billion Department of Energy. Along with this monstrosity goes the new Energy Bill. This bill allows for tax increases of $77 billion between 1978 and 1985, of which $7 billion will be returned in the form of rebates. Thus we will have net taxes of $70 billion. On top of this there will be a $78 billion cost to industry to convert to coal, $5.8 billion in subsidies to industry in the form of tax credits, and $21.5 billion in Federal Administrative costs. This totals $105.3 billion. The combined total will run to about $175 billion in increased expenses and taxes. I don't know about the "energy crisis," but I do know that we face a "bureaucracy and tax crisis."

LATE COMMENT: I notice (as I am sure you do) that the sliding market is now gathering a following of pessimists. Many of the first and second quarter optimists are now becoming bearish, and a few of my friends are calling it "a bear market." Moreover, a few of the bear market converts are very knowledgeable analysts, not sensation-seeking neophytes.

I continue to believe that we are in the second phase correction of a bull market. I've been asked this question: "The last confirmed highs for the D-J Industrials and Transports occurred in July, 1976, fifteen months ago. The bull market high for the Industrials came in September, 1976, twelve months ago. Thus, this market has been correcting for twelve to fifteen months, depending on how you want to define it. Isn't that an abnormally long time for a bull market correction?"

My answer is, yes, that's a very long time. But the second phase of the 1949-66 bull market ended in April, 1956, at 521.05 on the Dow. Yet the final bottom was not hit until October, 1957, eighteen months later! Next, it should be remembered that the advance-decline ratio for the NYSE hit its peak last July, only three months ago. From the standpoint of breadth, this has been a short correction–so far.

Finally, I want to remind subscribers that I wrote many months ago that the reaction which ends the second phase of a bull market usually brings out cries of "bear market." Furthermore, the second phase reaction usually generates great gloom and doom. I remember late-1957 as though it were yesterday, and I can tell you that I have never seen such fear, pessimism and bearishness before or since (people were actually furious at me when I turned rampantly bullish in late-1957!).

Many months ago, when I became convinced of the impending crack-up of the second phase of the bull market, I urged my subscribers to move to cash or bonds. I did this because I

suspected that the wind-up of the correction would be very much like the costly and frightening correction of 1957 (or even 1962), and I did not want my subscribers to have to go through anything like that. At this point, I am glad that I followed my intuition.

As this is written (Sept. 19) both the Industrial and Transportation Averages have dropped below their August lows (see p.1 chart). I don't know how this market is going to close, but veteran readers of these reports know that the most authoritative movements are those that occur when both Averages penetrate preceding lows simultaneously (i.e., on the same day). The act of simultaneous penetration seems to denote a peculiar force which carries great predictive value (by predictive value, I mean that a simultaneous penetration can be expected to carry a considerable distance in the direction of the penetration).

On top of this, as this is written, the NYSE Composite Index is at 52.56, just .06 from the fateful 52.50 reading. As subscribers know, I consider that the NYSE Index is in a top formation, and a closing of 52.50 or lower for this Index would constitute a bearish penetration of six preceding bottoms.

My guess is that a closing below 845.38 (Industrials) and 214.21 (Transports) further validated by a closing of 52.50 or lower on the NYSE Index would send this market into the terminal portion of the whole second phase correction.

Subscribers may remember that back in Letter 696 (May 4, 1977) I drew attention to my Fibonacci studies, studies which pointed to a major turning point in **October, 1977.** I wrote that at the time I could not tell whether October was fated to be a top or a bottom, but as time went on it became clear (see Letter 704) that a bottom was what the Fibonacci series was pointing to. I must admit that in May I did not see how this correction could drag on until October, but here we are, only a few weeks away, and the market still seems to be heading towards a possible October destiny.

I want to warn readers again that my Fibonacci forecasts are only my own exercise in "crystal-ball gazing." These studies are obviously **not guaranteed** to predict the actual bottom. There is no man, device or vehicle on the face of the earth that can predict the market with accuracy. Nevertheless, I personally find the Fibonacci series fascinating, and I want to repeat the dates that led me to conclude that October "could be" the bottom.

As you know, the Fibonacci series is derived by adding the current number to the preceding number, as 1,2,3,5,8,13,21, 34,55,89, etc. In other words, each two numbers, added together, produce the next. Now examine these relationships:

September, 1976 bull market peak (Dow 1014.79) to October, 1977 is **13** months.
December, 1974 major bear market bottom to October, 1977 is **21** months.
September 21, 1976 Industrials high (1014.79) to week of October 17, 1977 is **55** weeks.
May 1970 crash bottom to October, 1977 is **89** months.

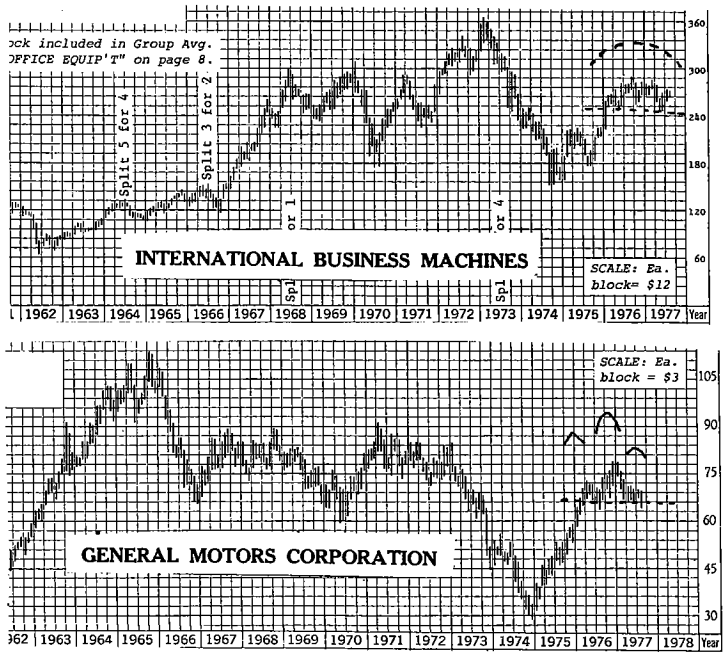
I didn't "make up" the series, it was there (I just found it). So let's see what happens!

STOCKS: A few of my newer subscribers have been worried because "I have not discussed individual stocks." I guess that's a fair question (or complaint). But to me it's like the guy who talks about dinner all through breakfast. What I'm trying to say is that "we just ain't there yet." I'll talk about individual stocks when I think the time has come to pop open our wallets and buy 'em. For sure as hell, if I start saying that this stock looks like it's basing and that stock looks like a great value, subscribers are going to start buying. And I want my subscribers to wait.

I will talk about two stocks, however, and it's not going to be pleasant talk. The two stocks are both "biggies," market leaders. They are GM and IBM. On the monthly charts, GM has formed a "head-and-shoulders" top. Worse, it's formed that top right under the heavy 1971-72 supply in the 65-75 area. That suggests to me that when this market goes over-sold, GM could be a downside leader. Now nothing scares the market the way GM does when it heads down. And that kind of action (if it occurs) could give us a big over-sold condition.

Next, IBM: this great growth stock has formed a toppy looking pattern, but it would seem to have support at 240. If IBM heads down to the 240 level, however, a lot of people are going to be very frightened. This too could militate towards an over-sold market. (These two charts courtesy of *Horsey,* Salisbury, MD 21801).

On the happier side, my broad "Consumer Index" has just turned up in relative strength, this after a decline of almost two years.



GOLD: Gold is bouncing up for a try at 150, and this is almost a 50% rise from its bear market low of 103. As this is written, the London stock market has plunged following its brief journey to all-time highs. US deficits are rocketing, Carter and his Administration appear to be "out to lunch" (and out to breakfast and dinner, too), confidence is waning. Treasury Secretary Blumenthal has suddenly become quiet (after his "let the dollar go" speech), and Bert Lance is doing all he can to defend himself, let alone the dollar. Finally, everyone who knows anything seems to have his fingers crossed regarding the less-developed nations. The fear is that one nation defaulting on its foreign loans could roll the whole world banking egg right off the wall.

What I'm saying is that **fear** is in the driver's seat, and gold is popping to the tune of fear. I somehow doubt that this is the bitter end, but it's the bitter end that's going to provide the big, the fundamental, the great gold move. Translation–I see gold going to maybe 160, but stubborn brute that I am, I'm still not excited.

NEXT MAILING: September 30, 1977